

Message Text

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INFO AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY LA PAZ

AMEMBASSY MONTEVIDEO

AMEMBASSY SANTIAGO

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AMCONSUL SAO PAULO

USCINCSO

C O N F I D E N T I A L ASUNCION 3661

E.O. 11652: GDS

TAGS: PFOR, PINT, ECON, PA

SUBJECT: PARAGUAY SITUATION REPORT NO 2 - FIRST SEPTEMBER 1974

REF: ASUNCION 0852

NOTE: THIS IS THE SECOND IN A SERIES OF SITUATION
REPORTS ON PARAGUAY WHICH THE EMBASSY INITIATED BY
REFTEL IN MARCH 1974 AND PLANNED TO BE SUBMITTED
EVERY SIX MONTHS. THESE REPORTS ASSESS THE CURRENT
SCENE AND ESTIMATE MAJOR TRENDS OVER THE NEXT
SEVERAL MONTHS.

SUMMARY: THE ONLY SIGNIFICANT PROBLEM PRESENTLY
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CONFRONTING PARAGUAY IS ECONOMIC. INCREASING

INFLATION AND THE PROSPECT OF A SERIOUS TRADE DEFICIT WILL CONTINUE TO BE THE MOST IMPORTANT CAUSES OF CONCERN FOR PARAGUAY. NO SIGNIFICANT POLITICAL DEVELOPMENTS HAVE OCCURRED DURING THE PAST SIX MONTHS. US-PARAGUAYAN RELATIONS REMAIN GOOD AND ONLY MINOR IRRITANTS INVOLVING THE OAS SECRETARY GENERAL ELECTION AND GOP TREATMENT OF CERTAIN INDIGENOUS INDIAN TRIBES MIGHT DEVELOP. END SUMMARY.

II. THE ECONOMY

1. THE PRINCIPAL PROBLEMS FACING PARAGUAY IN MID-1974 ARE ECONOMIC. MOST IMPORTANT AMONG THESE IS THE CONTINUING HIGH RATE OF INFLATION, NOW RUNNING AT ABOUT 22 PERCENT. IN ADDITION, THE COUNTRY'S TRADE BALANCE HAS BEEN ADVERSELY AFFECTED BY A 7 PERCENT DROP IN EXPORTS (DUE MOSTLY TO THE EEC EMBARGO ON FROZEN BEEF IMPORTS), COMPOUNDED WITH A 30 PERCENT RISE IN IMPORTS (PRINCIPALLY DUE TO HIGHER COSTS OF PETROLEUM) COMPARED TO THE SAME PERIOD A YEAR AGO. AS PREDICTED IN OUR FIRST SITUATION REPORT (ASUNCION 0852) PARAGUAY'S TRADE DEFICIT FOR 1974 WILL PROBABLY REACH AT LEAST \$20 MILLION. UNCERTAINTY AS TO WHERE THE NATION'S ECONOMY IS GOING HAS LED TO WIDESPREAD UNEASINESS THROUGHOUT THE PRIVATE SECTOR, ALTHOUGH THE GOP PERSISTS IN REFUSING TO RECOGNIZE THE EXISTENCE OF SIGNIFICANT ECONOMIC PROBLEMS.

II. POLITICAL AFFAIRS/FOREIGN RELATIONS

2. IN THE POLITICAL SPHERE, PARAGUAYAN RELATIONS WITH HER TWO LARGE NEIGHBORS, BRAZIL AND ARGENTINA, CONTINUE TO BE UPPERMOST IN IMPORTANCE. EVEN IN THESE BILATERAL RELATIONSHIPS, ESSENTIALLY ECONOMIC-BASED MATTERS ARE OF PRIMARY CONCERN. SPECIFICALLY THE ONGOING PREPARATIONS FOR THE CONSTRUCTION OF THE THREE MAJOR HYDROELECTRIC PROJECTS ON THE UPPER PARANA RIVER AND COMMERCIAL CREDIT ARRANGEMENTS AND BILATERAL TRADE MATTERS CONSTITUTE THE MOST IMPORTANT ELEMENTS.

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3. THE DEATH OF ARGENTINA'S JUAN PERON INCREASED THE GOP TENDENCY TOWARD WARINESS OF AN UNSTABLE ARGENTINA RESULTING IN GREATER RELIANCE ON THE RELATIONSHIP WITH BRAZIL. ALTHOUGH OF LITTLE LASTING SIGNIFICANCE, DIPLOMATIC ACTIVITY IN THE PAST SIX MONTHS WAS RELATIVELY INTENSE AS PRESIDENT STROESSNER VISITED SOUTH AFRICA AND CONFERRED DURING SEPARATE VISITS IN PARAGUAY WITH THE PRESIDENTS OF ARGENTINA,

BRAZIL AND CHILE.

III. RELATIONS WITH THE U.S.

4. U.S.-PARAGUAYAN RELATIONS REMAINED ON AN EVEN KEEL, WITH NO SIGNIFICANT PROBLEMS AND WITH NO APPARENT LIKELIHOOD THAT ANY WILL DEVELOP WITHIN THE NEXT SEVERAL MONTHS. PARAGUAYAN COOPERATION WITH THE U.S. GOVERNMENT IN NARCOTICS AFFAIRS AND THEIR SUPPORT FOR U.S. POSITIONS IN INTERNATIONAL FORA CONTINUED. ALTHOUGH AN ARGENTINE PROMISE TO SUPPLY PARAGUAY'S WHEAT REQUIREMENTS DIMINISHED SOMEWHAT THE GOP'S SENSE OF URGENCY FOR A U.S. PL-480 TITLE I WHEAT AGREEMENT, THE PARAGUAYANS WILL CONTINUE TO PURSUE THEIR REQUEST FOR AN AGREEMENT BOTH FOR BALANCE OF PAYMENTS AND FISCAL RELIEF AS WELL AS INSURANCE AGAINST ANY ARGENTINE FAILURE TO DELIVER. THE PROSPECTS FOR THE ELECTION OF FOREIGN MINISTER RAUL SAPENA PASTOR AS SECRETARY GENERAL OF THE OAS NOT ONLY CONSITUTES A SERIOUS MATTER FOR THE GOP BUT PROVIDES A POTENTIAL SOURCE OF IRRITATION IN US-PARAGUAYAN RELATIONS SHOULD THE U.S. FAIL TO SUPPORT SAPENA IN THE OAS ELECTION. A SUBSEQUENTLY DENIED PRESS REPORT FROM WASHINGTON CLAIMING U.S. OPPOSITION TO THE SAPENA CANDIDACY CAUSED A FLURRY OF CONCERN IN MID-AUGUST. DESPITE THE DENIAL, ANY FUTURE U.S. OPPOSITION TO SAPENA WILL UNQUESTIONBLY BE INTERPRETED BY THE GOP AND SAPENA PERSONALLY AS PERFIDY ON OUR PART.

5. FROM THE GOP'S VIEWPOINT, CONTINUED INTEREST FROM PORTIONS OF THE U.S. PRESS AND CERTAIN MEMBERS OF THE U.S. CONGRESS OVER ALLEGED MISTREATMENT OF SOME INDIGENOUS PARAGUAYAN INDIAN TRIBES ALSO LOOMS
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ON THE HORIZON OF BILATERAL RELATIONS. IN FACT, THE GOP HAS INITIATED EFFORTS TO ALLEVIATE THE SITUATION OF THESE INDIANS AND HAS EXHIBITED AN APPARENTLY SINCERE DESIRE TO SEEK, WHEREVER APPROPRIATE, THE ASSISTANCE AND COOPERATION OF U.S. AND OTHER INTERNATIONAL AGENCIES.

IV. PROGNOSIS.

6. BY THE END OF THE YEAR, PARAGUAY'S ECONOMIC SITUATION WILL HAVE PROBABLY WORSENED SOMEWHAT WITH CONTINUED INFLATION AND THE RESULTANT PRESSURE FOR WAGE INCREASES IN BOTH THE PUBLIC AND PRIVATE SECTORS. DESPITE THIS, THE GOP WILL IN ALL LIKELIHOOD CONTINUE TO IGNORE THE PROBLEM, AND THROUGH THE USE OF MIRRORS

STICK TO THE CLAIM OF PEACE AND PROGRESS WITH PROMISES
OF A TAKEOFF POINT SUPPOSEDLY LURKING JUST AROUND
THE CORNER. THERE APPEARS TO BE NO LIKELIHOOD,
HOWEVER, THAT THE CONTINUED ECONOMIC SQUEEZE ON THE
GENERAL POPULATION WILL CAUSE ANY SIGNIFICANT POLITICAL
UNREAST NOR POSE ANY UNSURMOUNTABLE DIFFICULTY
FOR THE STROESSNER REGIME.
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